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ABSTRACT

This paper provides a brief overview of the elementary and secondary school-finance system. The scope of the school-finance enterprise is large. On any given day, about 20 percent of the country's population participates in precollegiate education programs of some sort. The states provide nearly half of all school revenues, which come from broad-based statewide taxes. The remaining funds come from local sources, primarily property taxes. The states, however, generally control local contributions. The factors that influence school spending have changed. Between 1950 and 1990, spending increases were propelled, generally, by the expansion of services schools were required or expected to provide. Since the 1990s, school spending increases have been based on evidence of improvement, a result of the standards-based approach to reform. The main strength of the current funding system is its ability to generate large amounts of money. Its main weakness is that it is inefficient because of its size and complexity. Further, the finance system is affected by other educational issues that require attention. These issues include linking finance to accountability; paying for school facilities and teachers; funding special education and at-risk students; and providing support for charter schools. (WFA)

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July 2001

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The Status of School Finance Today

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This paper is designed to (1) describe the scope of the school finance enterprise, (2) explain how schools obtain support, (3) identify the factors that have influenced how much funding is available for public schools and how those funds are allocated, (4) describe some of the strengths and weaknesses of the current way schools are financed and (5) identify some other issues facing education that have funding implications.

The Scope of the Enterprise

How Large is Large?

Public kindergarten through grade 12 (K-12) education is a large enterprise, and funding it involves a significant amount of resources. In 1998-99, the latest year for which a wide array of comparable data are available for all states, about 51 million students were enrolled in schools providing K-12 education in the 50 states and the District of Columbia. Of these, some 45.8 million pupils were enrolled in public schools (leaving out other people served by public schools including prekindergarten pupils and those participating in adult education) and 5.1 million pupils were enrolled in private schools (84% of whom were in religious schools). In addition, an estimated 2 million children were educated at home. It is worth noting that of the pupils in public schools, about 6 million (13.1%) were served under the Individuals with Disabilities Education Act (IDEA) and 17 million (37%) were eligible for free/reduced price lunches (one indicator of pupils coming from low-income homes, which serves as a proxy for those at risk of either dropping out of school or failing to meet pupil performance expectations).

Elementary and secondary education services were offered in 91,000 public school facilities, which were operated by 14,900 school districts, and in 27,400 private schools. About 2,100 of the public schools are charter schools, which enroll over 500,000 pupils. These figures suggest that, on average, noncharter public schools enroll just over 500 pupils, charter schools enroll about 250 pupils and private schools enroll fewer than 200 pupils. School districts differ dramatically in the number of students they serve, with the largest 1.6% of all districts serving 32% of all pupils (and having an average enrollment of over 61,000 pupils) and the smallest 22% of all districts serving 1% of all pupils (and having an average enrollment under 200 pupils).

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Education in general, and K-12 education in particular, is often described as a labor-intensive industry, with about 85% of all expenditures devoted to personnel. In 1998-99, about 2.8 million teachers, paid an average salary of $40,600 (excluding benefits), were employed by public schools while an additional 375,000 teachers worked in the nation's private schools. In addition to teachers, the public schools employed nearly 2.6 million other people, including 212,000 school and school district administrators and coordinators, 586,000 instructional aides, 295,000 administrative and student support personnel, and nearly 1.1 million non-instructional support staff. This means that there were about 60.7 teachers for every 1,000 pupils (there were about 74.2 teachers per 1,000 teachers in private schools), 4.7 administrators and coordinators per 1,000 pupils, 12.8 instructional aides per 1,000 pupils, and 23.5 non-instructional support staff per 1,000 pupils in the public schools — or a total of 116.5 adults per 1,000

pupils. These figures suggest that public schools employ roughly one other person for every teacher, and that administrators and coordinators represent just under 4% of all public school employees.
Public elementary and secondary schools spent about $296 billion for current operations and $44 billion for capital purposes (capital outlay and debt service) in 1998-99. On average, those schools spent about $6,500 per pupil for current operations, of which 61% was for instruction, 8% for administration, 10% for the operation and maintenance of facilities, and the remaining 21% for transportation, support services for students and staff, community services, summer school and adult education. The average per-pupil spending of the states varies somewhat around the national average. The average amount spent in nine states is more than 20% lower than the national average while the average level of spending in seven states is more than 20% above the national average (without making adjustments for interstate cost-of-living differences). This means that the average spending of several states is 50% higher than the average spending of several other states, although the per-pupil spending in most states falls within plus or minus 20% of the national average. Within each state, per-pupil spending can vary dramatically, which has been one stimulus of school finance litigation (particularly when it is strongly correlated with the wealth of school districts). However, some of the variation in spending within states represents either real cost differences — associated with the enrollment and geographic size of districts or with their demographic characteristics — or differences in people's willingness to support education as reflected by the tax effort voters approve.

There are, of course, many ways to think about the amount that is spent by public schools. On one hand, the average current spending per student represents an expenditure of about $6 per pupil, per hour in school, assuming a 180-day school year and a six-hour day (and less than that if the school day is longer or the school year is longer). But, in the aggregate, all spending for public education is 3.7% of the nation's Gross Domestic Product (GDP) and consumes 4.4% of all personal income.

Revenue for public schools comes primarily from the states, local school districts (directly from the district if it is "independent" and has the authority to levy taxes, and indirectly through a municipality or city if the district is "dependent" and has no tax authority) and the federal government. In the aggregate, the states provide 48% of all revenue (for both current and capital purposes), school districts provide 45% of all revenue, and the federal government provides 7% of all revenue. While the majority of local funds come from property taxes (in some states, other sources, such as local sales taxes, are a significant source of local funds and local income taxes provide a small amount of revenue in a few states), most state support comes from state general funds (as opposed to earmarked funds — although some funds for education, such as lottery proceeds, may be earmarked), which are based on statewide sales and income taxes. There is some variation across the states in both the reliance on state revenue as well as the reliance on particular sources of state and local revenue. This is exemplified by the fact that in 13 states, the state share is less than 40% of all revenues while in 14 states; the state share is more than 60% of all revenues. In some states, school districts have some access to local sales or income taxes while in some states, there is no statewide sales tax or income tax (or both) and there may be a statewide property tax. In most states, funding for public elementary and secondary schools typically accounts for 25-40% of the general fund budget and represents the largest single item in the general fund.

Therefore, on any given day, about 20% of the country's population is participating in precollegiate education programs of one sort or another, 87% of which are enrolled in 91,000 publicly supported schools, which are governed by school districts that represent 17% of all governmental entities in the country. About 5.4 million people are employed in public schools, or 4% of all civilian employees in the nation. More than $340 billion is spent by public schools, consuming 4.4% of the nation's personal income. Nearly half of all revenue for public schools comes from state sources, taking about a third of state budgets, while most of the remaining funds are derived from local sources, principally from property taxes.

Some Characteristics of the Enterprise Have Changed Over Time

The magnitude of the K-12 education enterprise has changed somewhat over time. Thirty years ago, 50.7 million students attended elementary and secondary schools, with 45 million pupils in public schools and 5.7 million pupils in private schools. These figures, which are very similar to today's levels, indicate that a larger proportion of the total population was in school in 1970 than today (there were some 75 million fewer people at the time and the age distribution of the population was very different) and that a larger proportion of pupils attended private schools at that time compared to today. In 1970, 3.2 million pupils (7.1%, or slightly more than half of today's proportion) were enrolled in special-education programs. Too,

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at that time there were 91,100 public schools, operated by nearly 18,000 school districts, and 18,100 private schools — so we have the same number of public schools, in somewhat fewer school districts, serving the same number of pupils as was true 30 years ago while there are far more private schools, serving somewhat fewer students now.

The staffing of public schools has changed dramatically in the last 30 years. In 1970, there were 2.3 million instructional staff, or about 50.2 instructional staff per 1,000 students; in 1998-99, there were 75.6 instructional staff per 1,000 pupils, or an increase of 50%. A number of factors may explain this increase, including growth in the numbers of pupils with special-education needs, the expansion of programs and services for pupils, including those for pupils at risk of failure, and the unwillingness of school districts to reduce staffing when enrollments decreased during the interim years. During the past 30 years, teacher's salaries rose, on average, by about 8% above the rate of inflation. This figure overstates the real change since the characteristics of teachers that determine salary levels, education level and experience are higher now than they were then. Today about 45% of all teachers have at least a master's degree, compared to about 28% in 1970, and 65% of all teachers have more than 10 years of experience (in 1970 half of all teachers had less than 10 years of experience). In effect, teachers today are paid about as much as they were 30 years ago and may work more days per year now than was true then.

In comparison to 1970, the per-pupil spending of public schools today is about 93% higher than what would be necessary simply to have kept pace with inflation. About two-thirds of the increase can be explained by the higher numbers of instructional staff and the rise in aggregate teachers' salaries (most of which is associated with higher numbers of staff). The remainder, about $1,000 per pupil, may reflect increases in personnel other than instructional staff, the cost of personnel benefits, and expenditures for supplies and materials, including technology. Aggregate spending for public schools in 1970 was 3.7% of GDP, exactly the same as it is today, although it was 4.7% of personal income, somewhat higher than it is today.

As far as revenues are concerned, the most notable difference between 1970 and today is that reliance on state revenue was lower 30 years ago (representing about 40% of all revenue then, compared to 48% today) while reliance on school district, or local, revenue was higher (about 52% of all revenue then, compared to 45% today). Federal funds also provided a slightly larger share of all school revenues in 1970 (about 8% of all revenue then, compared to 7% today).

The Way Public Schools are Funded

How Do the States Provide Support for Public Schools?

As described above, the states provide nearly half of all school revenues. Even though most of the remaining funds come from local sources, the states control, to a large extent, those local contributions. Therefore, in order to understand school finance, it is important to know how state school finance systems operate.

The vast majority of state support for public schools is distributed to school districts, which are the legal entities to which states have delegated the authority to operate schools (only a minute portion of state funds are allocated directly to schools, teachers or parents). Most school districts in the nation are independent, with their own ability to collect tax revenue within limitations set by the states; dependent school districts must obtain local support from another level of local government, such as a city or county. States use a variety of approaches to allocate their support, including formulas driven by factors such as numbers of students, reimbursement of eligible expenditures and competitive grants. It is not uncommon for there to be multiple components of a state's school-aid system, with each component serving a different purpose and using a different approach, which makes the distribution of aid extremely complex. Too, the states use their school finance systems to accomplish other purposes, such as controlling local tax effort and district expenditure levels or directing how districts can spend their revenues.

Each state tends to have a primary program for distributing support, which tends to be based on the "foundation program" approach. The foundation program has evolved over a long time. Two centuries ago, states did not provide support to public schools, only giving them the ability to generate their own local support. Later, states provided a small amount of support, usually distributed as a fixed amount per teacher, to ensure that all schools could provide a minimal program (that is, be open for a certain number

of days per year). A century ago, it became clear that school districts varied enormously in their property wealth and that they had the capacity to, and did in fact, provide dramatically different levels of support at very different levels of tax effort. In order to "equalize" school districts, the states began to take the wealth of each district into consideration by deducting the amount each district could generate by applying a common property tax effort from the total amount the state wanted to ensure was available. This approach, setting a target level of resources per unit (teacher, classroom or pupil) and paying the difference between the target and the amount each district could generate from its property tax base, became known as the foundation program.

Within the last 30 years, the approach has been modified so that a different target revenue level can be set for each school district that reflects the unique cost pressures each district faces due to the kinds of pupils it serves (such as those coming from low-income families), the kinds of programs it needs to offer, such as special education or services for pupils with limited proficiency in English, or the circumstances it faces in terms of cost-related characteristics (such as district size in terms of enrollment, which can affect the per-pupil cost of providing certain services). Today, when we say that state aid is "equalized," we mean that the state aid approach is sensitive to both the needs of districts and to differences in wealth.

But if the major state aid program can be viewed as being similar across the states in broad terms, the way that program is implemented varies dramatically from state to state in terms of some key policy issues. First, the most basic feature of a foundation formula is the foundation level, an amount that is common across all districts in a state regardless of their need or wealth. States differ in the magnitude of the foundation level and how the figure is derived. Some states set the level on the basis of a particular rationale, typically associated with pupil-teacher ratios and salary levels, the actual spending of school districts or an inflation-related increase over a prior year's level. In many states, the figure is determined so that the total amount spent by the state equals the amount of revenue the state is willing to generate given the tax rates required, and the public purposes other than elementary and secondary education the state is attempting to accomplish. Despite the fact that the foundation level is often expressed as an amount per pupil, the states differ in how they count pupils. Some states use actual attendance, others use "membership" and some allow averaging of pupil counts over several years to mitigate the impact of dramatic changes in enrollment.

Second, the adjustments to the foundation level, which modify it so that it is higher for districts with higher "needs," vary from state to state in terms of both the kinds of factors that are used and their magnitude. Adjustments to the foundation level often take the form of pupil "weights," which alter the pupil count of each district based on the higher cost associated with certain pupils, services or district characteristics. For example, a pupil requiring a particular set of special-education services might be counted as 1.8 pupils rather than as 1.0 pupils, where the .8 indicates that the excess cost of providing additional services is 80% higher than those offered to a pupil with no special needs. The states vary in the ways they use pupil weights. Some states have adjustments to provide added support for at-risk pupils while others do not. Among the states that do use such a factor, the level may vary from 5-50% (or an added pupil count of .05 to .50) of the foundation level.

Third, although it is necessary to specify the relative fiscal capacity, or wealth, of school districts in order to "equalize" state aid, states differ in the way they measure fiscal capacity. While most states use the assessed value of property (often in per-pupil terms), some combine property with income, even when school districts cannot access income through local taxation. In addition, some states use mechanisms such as differential assessment rates (for different types of property), homestead exemptions (a portion of the value of a family's residence is not subject to taxation, typically for elderly or disabled homeowners or for veterans) or circuit breakers (which limit property taxation to a specified proportion of family income) in order to reduce the impact of property taxation on homeowners.

Fourth, some states require districts to make their expected local contribution (the amount subtracted from the "target," based on relative wealth, to determine state aid), while others do not require that the local contribution actually be made (if districts do not raise the amount used to calculate state aid, state aid may be reduced proportionately — but in either case students in some districts may have less revenue available to them than their peers in other districts). Also, only a few states do not allot aid to districts that are so wealthy that they are ineligible for any; more precisely, states may not require very wealthy districts to pay the excess amounts they are able to collect, often at very low property tax rates, which the state could redistribute to other districts. This is a very controversial issue, sometimes termed

"recapture," that has been successfully implemented in a couple of states and caused political turmoil in a few other states. (A statewide property tax can accomplish the intended result of ensuring that all property taxpayers have the same tax rate.)

Finally, states vary in the extent to which districts can supplement foundation program revenues. Some states permit unlimited local revenues above the foundation target (although other restrictions on the taxing or spending authority of school districts may indirectly constrain local funding) while others limit the amount to a proportion of the target level. Too, some states provide state aid to districts that choose to raise high levels of local revenue and do so in an equalizing way (taking district wealth into account) in order to provide an equal opportunity to generate supplemental funds to most districts.

In some states, the adjustments to the foundation level do not take the form of pupil weights but, rather, are accomplished through supplemental, categorical programs under which the state may provide added support through a separate formula, or by reimbursing a district for a portion of the supplemental costs it incurs to provide services. Under a categorical program, the state may attempt to pay a much higher share of the total added cost than the share it pays of foundation program costs. Too, a categorical program may not be wealth-equalized — that is, the state may not take the wealth of each district into consideration in calculating the level of state aid. The use of categorical approaches serves at least two purposes: (1) It isolates funds for a particular purpose so that the state can specify that such funds, or a portion of them, be used specifically for that purpose (which may satisfy whatever interest group may be promoting the need for the added funds) and (2) It allows the state to ensure that even the wealthiest districts, which might not qualify for any foundation aid, can obtain some state aid.

Where the Revenue Comes From

In general, states obtain the revenue to fund schools from broad-based, statewide taxes, typically on sales and income (personal and corporate), which go to the state's general fund and are then distributed to school districts. While some states earmark some funds (typically lottery receipts or increases in sales taxes), there is little evidence that such earmarking produces higher revenues for public schools than would otherwise have been available; the new earmarked revenues are accompanied by reduced general fund revenues. Earmarking may be useful, however, in selling new taxes or new sources of revenue to the voters. Several states have added statewide property taxes to the array of state revenue sources. This has been done, in part, in exchange for lowering other taxes and, in part, as a way to increase equity for taxpayers. Too, some states have enacted what amount to "maintenance of effort" requirements to ensure that funding for public schools is not threatened. This has been done by requiring a state to provide a fixed share of the general fund for education or by creating an education fund while simultaneously requiring that education revenue rise by a specified level each year. But the most important thing that has been done at the state level, often by popular vote, is to indirectly control the revenue available to school districts by limiting increases in property value, property tax rates, property tax collections, school district budgets, state expenditures, or a combination of these constraints. The primary purpose of these measures is to control property taxes, even at the expense of the services they support. Schools face a difficult situation in dealing with these constraints since a minority of voters typically have children in school. The natural impulse of the majority of voters is to lower property taxes despite the efforts of school districts to convince them of district needs.

School districts derive the vast majority of their revenues from *ad valorem* property taxes (except in those few states where school districts have access to sales or income taxes). Complaints about property taxes are legion, many of which are associated with the way they are administered. Property taxes are based on the assessment of property value, which may not be done consistently across a state, resulting in a perception of unfairness. While some have called for the elimination of property taxes (although no court has ever required their eradication), others worry that too much reliance on sales or income taxes would jeopardize support for education by putting state taxes in competition with local taxes and by placing too much emphasis on taxes that are sensitive to economic conditions. Attempts to strengthen local school district revenue collection, by giving districts limited access to taxes other than those on property, by allowing them to charge fees or by encouraging them to accept donations to district-based foundations, have resulted in little new revenue, except in isolated cases.

As the discussion above suggests, school finance formulas can become very complex. One of the most common complaints about existing formulas is that they are too complicated — to the point that only a few people in any state actually understand how they work. While some of the complexity is a result of the

political need to adjust the distribution of state aid in particular ways, much of it reflects the fact that the allocation procedures are designed to fulfill numerous policy objectives, some of which are designed to fulfill state constitutional requirements. Any system of allocation that requires both the needs of recipients and the relative ability of recipients to pay their share of total costs to be taken into consideration is likely to be complicated.

What Factors Influence Public School Spending?

A decade-by-decade look at increases in national average per-pupil spending by public schools indicates that between 1970-80 and between 1980-90, spending rose at a rate about 35% greater than inflation while between 1990-2000, spending grew by only 6% over inflation. Why did spending grow so rapidly for so long and then slow down?

Numerous circumstances propelled spending increases between 1950 and 1990, including litigation, the expansion of services that schools were required or expected to provide, and attempts to improve schools that had cost implications. Traditional school finance litigation (that is, litigation in which plaintiffs allege that the distribution of state aid produces disparities in revenues and tax rates that may violate state constitutional requirements) required many states in the 1970s and 1980s to modify the procedures they used to allocate state support and, in almost every instance, led to substantial increases in state support that far exceeded any associated reductions in local support (or resulted in higher levels of local support). Too, desegregation litigation, while focused on certain school districts, produced dramatic increases in spending that were paid for by required increases in state and local support.

The expansion of services has included the provision of new programs for students who might not have received them previously, such as assistance for physically or mentally handicapped students, students with limited-English proficiency and students at risk of failure. It also has meant reducing class sizes, extending the length of the school day or the school year or broadening course offerings. This expansion has been justified by litigation, which may require new services (some of which are ancillary to the academic needs of students), a desire by educators to appeal to the interests of pupils, their families and taxpayers, and an attempt to improve pupil performance. In the last 30 years, the pivotal point may have been the release of *A Nation at Risk*, which stimulated several waves of approaches at the federal, state and local levels to reorganize the way education services are offered in order to raise student performance and has, until recently, justified vast increases in spending for education. But, as mentioned above, that era seems to have come to a close. With federal revenues unlikely to change dramatically and local revenues constrained by the limitations described above, state aid is the primary source of new revenue in the immediate future.

At a time when many states are pursuing a "standards-based" approach to reform — under which states set expectations for pupil achievement, measure how well students, schools and school districts are doing, and hold teachers, schools and school districts accountable for results — the primary justification for added revenues from the state is evidence of improvement. It should be noted that another approach to improving schools, the implementation of charter schools, is built on the promise that such schools can achieve more than other public schools at existing levels of revenue. And completely revamping the funding system through the use of vouchers, which continues to be discussed in a variety of venues, holds no promise of more funds for education other than the possibility that funds would be made available to students attending schools not currently receiving public funds.

The combination of tax and spending limitations, which affected state and local revenue, and the legislative demand that new money would only come with increased performance, may explain why revenues increased only slightly above inflation in the 1990s, despite the strength of the economic situation in most states.

Strengths and Weaknesses of the Current Funding Structure

The current funding system, as described above, is enormously complex, reflecting the fact that it has evolved over a long period of time, that it attempts to accomplish numerous objectives and that it is the object of constant political manipulation. Litigation has subjected the system to intense review and, as a result, some structural changes have been made that have improved the revenue available to many students and many school districts.

Strengths

One strength of the system is its ability to generate a significant amount of money while keeping the burden on taxpayers (education spending as a proportion of personal income) fairly constant over time. This may reflect the fact that public education relies on numerous sources of tax revenue, including sales taxes, income taxes and property taxes, obtained from numerous levels of government rather than being dependent on only one or two primary sources of revenue. Perhaps the greatest threat to the system is the possibility that property taxes would be eliminated as a source of revenue, either in response to equity-focused litigation or to the public desire to do so. Recent history suggests that revenue growth may not be as robust in the future as it has been in the past. New revenue sources may need to be identified to ensure revenue growth, particularly if property taxes are reduced. What may save the property tax is the expansion of statewide property taxes, in place of local property taxes, which may address some of the administrative issues that have plagued property taxes, particularly inconsistent assessment practices across school districts.

Another strength is that the structure of the system provides the opportunity to promote a high level of equity across the thousands of jurisdictions that provide education services.[1] The foundation approach has the capacity to ensure that total revenues are sensitive to the varying needs of school districts, and that the allocation of state aid is sensitive to the widely varying fiscal capacities of those districts. While changes could be made within the structure to promote even higher levels of interdistrict equity, it is primarily the political will to make such changes that limits what can be accomplished by the structure.

Too, the funding system promotes a reasonable amount of "local control," permitting providers of education services some flexibility to determine both how much revenue they can obtain (subject to their ability to convince taxpayers of their needs) and how to spend whatever funds are available. Even the courts have suggested that school districts should have some ability to generate local revenue once states have ensured that all districts have an adequate level of revenue. And while there are certainly plenty of strings attached to some federal, state and local funds, limiting the ability of school districts to spend funds as they see fit, a significant level of power remains in the hands of districts — although they may not choose to use it.

Finally, the system uses all sorts of formulas to allocate most funds, which despite their complexity provide an alternative to the purely political distribution of funds. Formulas require distributors of funds to specify the needs of recipients as well as the ability of recipients to pay a fair share of those needs. No matter how the governance of education changes — for example, by diminishing the importance of school districts and heightening the importance of schools or families — formulas will need to be used to distribute aid from higher levels of government in order to avoid chaos.

Weaknesses

Of course, the funding system also has weaknesses. First, disparities in per-pupil spending and local tax rates still exist at high enough levels in some states to cause concern, if not to stimulate litigation. Too, the disparities that exist across schools within school districts are receiving some attention, particularly when those schools with relatively high needs obtain fewer resources than other schools with lower resource needs. Of course, there are other kinds of disparities that are of concern to one group or another. Many people continue to find differences in the tax effort of school districts to be disturbing, particularly when such differences are not associated with supplemental funding above some amount designated as being adequate, while others are concerned about variations in average teacher salaries, particularly after controlling for differences in teacher qualifications. In some sense, 15,000 entities providing the same service is bound to produce some variation — and those variations would be greater if one examined schools or families. The problem with variation is that some of it is appropriate and can be explained, some of it is related to local willingness to support education or to a desire to do things differently, and some of it is inappropriate if not unconstitutional. Understanding the kind of variation that is acceptable is critical to understanding the shortcomings of the existing school finance system or to developing a new approach.

Second, the system may not provide enough appropriate incentives, from improving pupil performance to encouraging public support, while providing a variety of inappropriate incentives, from miscounting pupils to using funds in ineffective ways. Educators are pretty good at finding incentives when they produce more revenue; the trick is to design them so that public policy objectives are served while, simultaneously, providing more funds.

Third, the system appears to be inefficient — there is no obvious relationship between increases in spending and improvements in student performance, and many funding decisions are so political that it would be difficult to expect a different result. But many of the tax and spending constraints that have been placed on the system operate independently of the needs districts face and their levels of performance. Perhaps the most obvious ingredient missing in the way services are delivered is innovation. The system is so large and cumbersome that inertia predominates, with the result that change takes place exclusively at the margin, driven by the relatively small grant without which it might not happen at all.

Issues That School Finance Will Need To Address

At this time, there are a variety of issues that the school finance system needs to address so as to improve the way it operates and, more important, to improve the way educational services are provided. Some of these issues are ones that would require attention no matter how money is provided in support of education, while others are associated with the particular way that the system works today.

Linking Finance to Accountability

One of the most important state-level policy developments affecting education during the last decade is the widespread implementation of the standards-based approach to improving student performance. Under this approach, the role of the state is to set performance standards for students, schools and/or school districts, to measure how well pupils, schools and/or school districts are doing in meeting expectations, and to hold teachers, schools and/or school districts accountable for the results they produce. This is a very different role from the one that providers of education funds have played in the past when, typically, they were more willing to specify what resources (including numbers of teachers, teacher salaries and materials such as textbooks) were needed and required school districts to make them available. The standards-based approach implicitly assumes that schools and school districts need to have a reasonable amount of resources to achieve desired results. In effect, states that expect pupil, school or district performance to reach specified levels, with consequences related to graduation or accreditation when those levels are not attained, create a kind of "unfunded mandate" when they do not ensure the availability of sufficient resources — in much the same way they would if they required that education services be provided in a specific way and did not allot enough resources to do so.

Some states are beginning to address this issue by developing rational approaches to setting funding levels in light of performance expectations, either by specifying the cost of a set of resources likely to produce the results or by examining the spending of districts that actually meet the stated objectives. The development of these approaches is in its infancy and requires a great deal more work before any methodology, or combination of methodologies, can be deemed both reliable and understandable.[2]

No matter how funds are distributed in the future, a level of support will need to be determined and that level of support ought to have a rationale, most likely related to student achievement, rather than simply being based on whatever revenues providers of funds are willing to provide. Too, this raises questions about whether a provider of education support should offer financial incentives to recipients that surpass expectations while reducing funds to recipients that are incapable of meeting expectations.

Paying Teachers

A large proportion of education funds, something just under 50%, are used to pay teachers' salaries (if benefits are included, the proportion is probably over half). Regardless of the proportion of all funds local school districts provide, they determine, for the most part, the structure of teacher salary schedules and the amount that teachers are paid. Remarkably, the vast majority of school districts use a similar structure in paying teachers — a salary schedule based on the levels of education and years of experience teachers have attained. This approach ensures that teachers with similar qualifications receive the same level of reimbursement (excluding pay for other duties they may have, such as coaching) and addresses a problem that existed years ago when some teachers (such as males or high school teachers) were paid more than others with similar backgrounds. Unfortunately, there is little reason to think that either the education level or experience of teachers has much to do with their likelihood of success, in terms of the performance of their students. Yet no alternative that has been proposed in the past 15 years or so, from "merit pay" to paying teachers based on their job-related knowledge and skills, has been implemented in more than a handful of school districts.[3]

While, on average, teacher salaries have kept pace with inflation over the last few years, there are reasons to believe that higher salaries may be needed, along with other workplace characteristics, to attract and retain the highly qualified cadre of people that will be needed to handle increasing enrollments of pupils, to deal with a growing population of students with special needs, to use technology in a meaningful way and to ensure that pupil performance increases. One of the problems with the existing way that teachers are paid is that there is no way to differentiate pay for some groups of teachers, such as new teachers, teachers who work in demanding circumstances or teachers in specialized subject areas, without incurring the tremendous cost of raising salaries for all teachers. The impending retirement of large numbers of teachers may create an opportunity to change the salary structure, but that will happen at the same time that large numbers of teachers will need to be hired.

Funding Special Education

Perhaps no issue has been discussed as much, with so little result, as the funding of special education. Policymakers have come to believe that the costs of serving pupils with special-education needs has skyrocketed, reflecting an increase in the numbers of students being served and a rise in cost of the services they receive.[4] Given the relatively low level of support provided by the federal government, which is viewed as mandating the services that must be provided, some people also believe that school districts are forced to subsidize special-education costs by reducing spending for other programs. The rule of thumb has been that, on average, about 12% of pupils participate in special-education programs and that those programs cost, on average, about 2.3 times as much as "regular" programs. While many states use "weights" to recognize the higher costs associated with students with different types of disabilities, some special-education advocates propose using a "census-based" approach for funding in order to comply with IDEA requirements and to eliminate any inappropriate incentives to misclassify students in order to gain funding. (This approach essentially assumes that the distribution of pupils with special needs, and the related costs, is the same in all communities.)

Funding At-Risk Pupils

Another issue that has received considerable attention in the last few years is the funding of pupils who are at risk of failure. Many states now recognize that some pupils require additional services, at added cost, to be successful in school, and they base the allocation of funds on the proportions of pupils from families with low incomes. While some of the approaches states use are complex, including higher levels of support as the concentration of students increases, not enough is known about successful programs and their costs to justify much more than a broad guess at the magnitude of the factor to include in a state aid formula. Given the changing demography of public school enrollment, it is becoming increasingly important to assure that the distribution of state aid is sensitive to the needs of at-risk students.

Paying for School Facilities

One of the issues that is likely to be on the agenda in many states in the future is the funding of school facilities. While many states provide some capital support, some provide little or no funding. This reflects a conflict between two competing attitudes: (1) that because facilities reflect local design preferences and are maintained locally, they should be paid for locally, and (2) that the state should provide the same "equalization" of support that it does for current operating expenditures. Recent litigation in a few states

has focused attention on such issues as health and safety needs, ensuring that funds are available to deal with growth and the equalization of property tax rates for capital purposes in light of the well-known variation in taxable wealth across school districts (and the limits most states place on incurring debt relative to property value). Paying for facilities is likely to be an area of high interest at a time when enrollments are growing, some buildings constructed during the baby-boom era are reaching the end of their usefulness and some facilities require upgrading in order to accommodate the expansion of technology.

Charter Schools

The expansion of charter schools is raising questions about how best to provide support for them, particularly in light of start-up costs, facilities and transportation issues, and the funding of central administrative services. While some argue that there is no increased cost associated with charter schools, others suggest that charter schools incur costs that would not otherwise exist and that the creation of many small schools in a district raises the per-pupil cost and incurs overhead costs that need to be taken into account.

Endnotes

1. See *Trends in Disparities in School District Level Expenditures per Pupil* by William Hussar and William Sonnenberg (National Center for Education Statistics, January 2000).
2. See "Enabling 'Adequacy' to Achieve Reality: Translating Adequacy into State School Finance Distribution Arrangements" by J.W. Guthrie and R. Rothstein in *Equity and Adequacy in Education Finance* (Helen Ladd, Rosemary Chalk and Janet Hansen, editors: Committee on Education Finance of the National Research Council, National Academy Press, 1999) for a description of alternative approaches that could be taken to quantify the cost of an adequate education. The courts continue to monitor these efforts and recent decisions in both Wyoming and Ohio suggest that while progress is being made, additional work needs to be undertaken in order to satisfy constitutional requirements.
3. See *Paying Teachers for What They Know and Do: New and Smarter Compensation Strategies to Improve Schools* by A.R. Odden and C. Kelly (Corwin Press, 1997) for a discussion of an alternative approach to reimburse teachers.
4. See *Where's the Money Gone? Changes in the Level and Composition of Education Spending* by R. Rothstein and M. Hawley (Economic Policy Institute, 1995).

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